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TO RUEHC/SECSTATE WASHDC PRIORITY 3259
INFO RUEHWN/AMEMBASSY BRIDGETOWN 2267
RUEHKG/AMEMBASSY KINGSTON 2966
RUEHBH/AMEMBASSY NASSAU 1100
RUEHPU/AMEMBASSY PORT AU PRINCE 5038
RUMISTA/CDR USSOUTHCOM MIAMI FL

UNCLAS SANTO DOMINGO 000963

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SUBJECT: REVENUE SHORTFALLS SEND THE GODR BACK TO THE IMF

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[1](#)1. President Leonel Fernandez, at an 8/21 meeting of the GoDR's economic team, instructed Central Bank Governor Hector Valdez and Secretary of Finance Vicente Bengoa to head a delegation to Washington this week to seek an agreement with the International Monetary Fund (IMF) aimed at obtaining a loan for USD 200 million in emergency budget support. The GoDR also expects that an IMF agreement will free up the disbursement of World Bank and Inter-American Development Bank (IDB) loans. Those loans total USD 700 million, of which only USD 120 million has been disbursed, with the remainder pending the GoDR's implementation of economic reforms, principally in the electricity sector (Ref B).

[1](#)2. The mission to the IMF represents an about face by the GoDR, which has been resisting calls for the past year from the private sector, economists and international financial institutions to seek a new IMF accord in response to the international financial crisis and its negative impact on the DR. President Fernandez, in his 2/27 State of the Union address, provided assurances that the Government would be able to finance its budget (Ref A). When it became clear that shortfalls in revenue, non-disbursement of loans and lower than expected PetroCaribe financing (only one-third of the expected USD 300 million has been received according to JP Morgan) were creating a large gap, the President proposed a USD one billion sovereign bond issue. Congress adjourned its last session on 8/13 without approving this proposal, however, and international financial conditions made it obvious that the GoDR would not be able to market such an issue at reasonable rates, if at all.

[1](#)3. Without alternative sources of funding, by mid-August the GoDR was staring at an unfinanced budget deficit of USD 277.8 million. Hopes that revenues would begin to pick up during the tourist high season were dashed, however, as the shortfall between revenue and expenditures for the first 18 days of August totaled USD 24.8 million.

[1](#)4. The Central Bank also announced on 08/24 that the GoDR may draw upon its upcoming general and special allocations of 177 million in IMF Special Drawing Rights (SDR) (USD 275.3 million) to bolster its foreign exchange reserves and its capacity to address balance of payments needs.

[1](#)5. COMMENT: With other financing options foreclosed, Fernandez and his economic team had little choice but to turn to the IMF. Perhaps surprisingly in the Latin American context, this decision has thus far garnered nearly universal praise. The private sector and economists have applauded the move, as the IMF offers the lowest cost for financing and loan conditionality should result in improved fiscal responsibility. Miguel Vargas, leader of the largest opposition party, the Dominican Revolutionary Party (PRD),

also expressed approval, noting that the PRD has long been calling for an IMF agreement and that it expects an accord will lead to increased transparency and less room for corruption and financial shenanigans by the ruling Dominican Liberation Party (PLD). END COMMENT).

BULLEN